

DEPARTMENT OF STATE

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EXCISE

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INFO AMEMBASSY CARACAS PRIORITY

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AMEMBASSY DJAKARTA

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY NEW DELHI

ALL OECD CAPITALS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USINT ALGIERS

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DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY: *cf*

DATE 6/19/81

PORTIONS DENIED AS INDICATED

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OIL SITUATION REPORT NO. ELEVEN FROM STATE DEPT OPERATIONS CENTER.

QUOTE SITUATION REPORT NO. 11 AS OF 1500 HOURS, EST, JANUARY 24, 1971

1. LIBYAN OIL NEGOTIATIONS

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REPRESENTATIVES OF OCCIDENTAL AND BUNKER HUNT MET WITH QIBLAWI, UNDER SECRETARY OF THE LIBYAN PETROLEUM MINISTRY, AT NOON SUNDAY, JANUARY 24. QIBLAWI RE-STATE THE PRINCIPAL LIBYAN DEMANDS, INCLUDING THE SHORT-HAUL PREMIUM, BUT HE DID NOT MENTION RETROACTIVITY OF A "SUEZ PREMIUM." THE COMPANIES REITERATED THEIR INTENTION OF NEGOTIATING COLLECTIVELY IN THE OPEC CONTEXT. QIBLAWI SAID HE WOULD REPORT TO DEPUTY PRIME MINISTER JALLUD, WHO MIGHT WANT TO SEE THE COMPANIES IN A FEW DAYS.

THE BUNKER-HUNT REPRESENTATIVE COMMENTED THAT HIS MEETING WAS AMICABLE, AND NO THREATS WERE MADE. QIBLAWI REPEATED TO OXY JALLUD'S NON-SPECIFIC THREATS OF UNILATERAL ACTION. NO FURTHER MEETINGS ARE SCHEDULED, AND BUNKER-HUNT REPRESENTATIVES WERE PLANNING TO LEAVE FOR LONDON SUNDAY EVENING. IN SUMMARY, THE SUNDAY-NOON CRISIS POINT HAS PASSED, BUT IT IS NOT CLEAR FOR HOW LONG.

2. MORE ON THE WESTERN FRONT

LONDON REPORTS THAT THE OIL COMPANY REPRESENTATIVES WHO ARE MEETING THERE ARE JITTERY OVER AN UNCONFIRMED REPORT BY SHIP BROKERS THAT LIBYAN AND ALGERIAN OIL PORTS WILL BE CLOSED ON WEDNESDAY, JANUARY 27. WHILE THE SITUATION IN LIBYA REPORTED IN ITEM 1 ABOVE INDICATES AT LEAST A BRIEF RESPIRE

3. SHAH OF IRAN'S PRESS CONFERENCE

THE SHAH'S PRESS CONFERENCE ON JANUARY 24, HIS FIRST IN TWELVE YEARS, PRODUCED NO SURPRISES, NOR WAS IT ESPECIALLY ACRIMONIOUS. REVIEWING THE CURRENT NEGOTIATIONS BETWEEN OPEC AND THE COMPANIES, HE DESCRIBED THE COMPANIES' INSISTENCE ON GLOBAL NEGOTIATIONS AS ESSENTIALLY A DELAYING TACTIC. THE GLOBAL APPROACH, HE FELT, WAS NOT PRACTICAL BECAUSE OF DIFFERENCES IN GEOGRAPHIC AND MARKETING FACTORS.

HE COMMENTED THAT THIS WAS "A TERRIBLE MISTAKE, A BIG BLUNDER" ON THE PART OF THE COMPANIES, WHICH WOULD COMPEL PRO-

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DUCING COUNTRIES TO MOVE TO THE VENEZUELAN POSITION (A 50 PERCENT TAX RATE, LARGER ROYALTIES, AND GOVERNMENTAL AUTHORITY TO SET POSTED PRICES UNILATERALLY). RECALLING THE NATIONALIZATION OF THE IRANIAN OIL INDUSTRY IN 1951 AND OF THE SUEZ CANAL, HE SAID THAT A SOVEREIGN COUNTRY CAN DO WHAT IT WANTS TO DO IN ITS OWN TERRITORY.

4. OPEC MINISTERS IN TEHRAN

ALTHOUGH REPRESENTATIVES OF ALL OPEC COUNTRIES ARE NOT NOW SCHEDULED TO MEET UNTIL FEBRUARY 3, THE VENEZUELAN, ALGERIAN, AND LIBYAN PETROLEUM MINISTERS ARE NOW REPUTED TO BE IN TEHRAN, WHERE THEY WILL NO DOUBT WISH TO CONSULT WITH THEIR PERSIAN GULF COUNTERPARTS. UNQUOTE IRWIN.

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AMEMBASSY KUWAIT

THE UNDER SECRETARY OF STATE

RS/R FILES

WASHINGTON

Attention *Willet*
Keep this study together.

7101148

January 25, 1971

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MEMORANDUM FOR THE PRESIDENT

Subject: My Trip to Iran, Saudi Arabia
and Kuwait

JOHN N. IRWIN

There is enclosed a memorandum describing the current oil situation, including my trip to Iran, Saudi Arabia and Kuwait. The trip began on January 16. I returned January 23.

In all three capitals, as your emissary carrying personal letters from you to the heads of state, I was well received, although with some initial suspicion because the host governments, resenting the possibility of interference and pressure with respect to the specific terms of an agreement, were unsure of my purpose. King Feisal asked me to deliver a letter to you, which I am forwarding to you separately, and the Shah and Emir both spoke of answering your letter. Each looks to the United States as a friend and protector and has the highest regard and admiration for you. The Shah hopes very much that you will be able to visit Iran in 1971.

On the other hand they [redacted] look with differing degrees of suspicion on the oil companies, believe they have not been treated fairly over the years and cite that in real terms they are receiving less for their oil than five years ago while paying more for imports. As a result of such feelings, as well as a greater sense of strength and solidarity because of the world oil situation and their membership in OPEC (Organization of Petroleum Exporting Countries), they stress readiness to stand up to

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U: J.N. Irwin

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the oil companies in the negotiations, even to the extent of reducing or halting production. Consequently, although I believe my trip gained a little time and impressed on the three governments a certain perspective heretofore lacking, I am not at all sanguine as to their final action unless the company negotiators can convince the producing countries that they are negotiating seriously and within the terms of reference and time frame of OPEC's Caracas resolutions.]

John N. Irwin II
John N. Irwin II

Enclosure:

Memorandum on Status of
Current OPEC Oil Negotiations.

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THE UNDER SECRETARY OF STATE
WASHINGTON

January 25, 1971

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MEMORANDUM

Status of Current OPEC Oil Negotiations

In September 1970, the Libyan Government succeeded in getting substantial increases in revenues from the oil companies. [REDACTED]

[REDACTED] The Europeans were unhappy at the increase in oil prices resulting from the Libyan settlement but in the end accepted them [REDACTED]

There followed a quick succession of escalatory actions and demands:

- price increases in the Persian Gulf;
- new tax legislation in Venezuela; with payments retroactive to January 1, 1970;
- demands for the immediate negotiation of higher revenues with all members of the Organization of Petroleum Exporting Countries (OPEC);

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--finally a demand from Libya for another fifty cent/barrel increase in its revenues, plus a twenty-five cent/barrel reinvestment requirement.

[REDACTED] B1

On receiving word of the OPEC demands, the Department consulted with the UK, France and the Netherlands, the countries whose oil companies had been given notice that negotiations would have to begin on January 12, 1971. These consultations were followed by discussions with other major consuming countries and the principal oil companies.

Out of these talks emerged a clear consensus among the consuming countries and the oil companies that although another increase in the revenues of the producing countries was inevitable, an effort should be made to prevent the process under which another Libyan settlement would be followed by a corresponding Persian Gulf agreement, followed by new Libyan demands, etc., with no end in sight.

The Department organized an interagency task force, conferred further with the oil companies, met with the Justice Department, continued its talks with several of the major European countries, and encouraged an industry plan to negotiate an agreement for all of the OPEC countries which might stabilize matters for an extended period of time. The Department also supported the concept of a company plan to protect those independent oil companies who operated in Libya and had been summoned on January 16 to accept or reject, but not to negotiate, the Libyan demands.

[REDACTED] B1

[REDACTED] **BT**

The Department had been considering the possibility of sending a special envoy to the three moderate states of the Persian Gulf--Iran, Saudi Arabia and Kuwait--to explain our views to their leaders. On January 15, when the chief executive officers of the major oil companies spoke with the Secretary, they urged that such a mission should be sent immediately and suggested to the Secretary that I be designated to go. After conferring with you, the Secretary directed me to leave the following day, Saturday, January 16.

The theme I emphasized in Tehran, Riyadh and Kuwait was the vital part Persian Gulf oil plays in the economic and strategic well-being of the free world, of which both they and we, along with Europe and Japan, were a part, the critical importance of [REDACTED] **BT**

[REDACTED] reaching an agreement which would be fair to the producing countries, the consuming countries and the oil companies, [REDACTED]

[REDACTED] While stressing **BT** that the United States was not participating in and did not intend to become involved in the details of the producing countries' negotiations with the oil companies, I said that we had urged the companies to be cooperative and reasonable and called attention to the fact that the companies had already agreed to negotiate about the substantive demands included in the OPEC resolutions.

Quite apart from the substantive provisions of an agreement, it became clear that there are two procedural issues which threaten a rupture in the negotiations [REDACTED] **BT**

[REDACTED] The first issue is whether the companies should negotiate a global agreement with all of the members of the Organization of Petroleum Exporting Countries (OPEC), which is the position of the oil companies, or should first reach

a separate agreement with OPEC's Persian Gulf group, which is the position of both OPEC and the Gulf countries individually. In connection with this issue I spoke of the companies' fears of incessant rounds of price increases and of being played off between the various geographical groupings of OPEC.

The second procedural issue is that the Persian Gulf countries are insisting that, even if separate negotiations are begun, the negotiations must be completed by February 1, in time to be reviewed by the extraordinary general session of OPEC which, pursuant to OPEC's December resolutions, is to meet in Tehran on February 3. In connection with this issue I discussed the action of the USG in giving the companies certain limited anti-trust relief in order to permit them to negotiate as a unit with the OPEC governments. I pointed out that this relief had only been given on January 15, that the companies were hard pressed to meet the OPEC deadlines, and that the producing countries should give them an extension of time.

The Shah and his advisers said that Iran had taken the lead in the Caracas OPEC meetings to divide OPEC into three groups: the Persian Gulf, the Mediterranean and the others, principally Venezuela and Indonesia. [This was done to isolate the radicals in the Mediterranean] **[REDACTED]** *BM*

The Persian Gulf producers, they said, intended to reach a "reasonable" settlement with the companies; indeed, they asserted, the increases in taxes they were considering would be modest enough to be absorbed within the price increases made by the companies in Europe in December 1970 without any further increases in prices to the consumers.

If, on the other hand, the companies insisted on negotiating with OPEC as a whole **[REDACTED]** *21*

[REDACTED]

They also

stated that OPEC would maintain a solid front. The three characterized the proposal of the companies for an OPEC-wide negotiation as a "trick," designed to play off OPEC members against one another with the hope that the whole negotiation would collapse. They said they were willing to break off the talks if the companies persisted along this line.

Finally, the Shah told me that he would be willing to specify in writing that any Persian Gulf agreement would be binding for its full term irrespective of more favorable terms obtained by Libya or other producing countries. This position was confirmed in Riyadh and in Kuwait, and in the Shah's press conference yesterday, as well as in a joint letter from the governments of Iraq, Iran, Saudi Arabia, and Kuwait to the oil companies.

[REDACTED] B1

From the reports of the first meetings in Tehran, the companies have held to their position of refusing to negotiate separately with the Gulf countries but nevertheless agreed to refer the issue to a decision-making body meeting in London. The Gulf countries in turn agreed to a limited extension of time for the start of negotiations, but have continued to insist that the negotiations must be completed no later than February 1, in time to be reviewed by the OPEC meeting called for February 3 in the December OPEC resolutions. It remains uncertain just what action OPEC might take. Iranian Petroleum Minister Amuzegar has implied that OPEC would react sharply to any indication of company delaying tactics.

[REDACTED] B1

With respect to other producing countries,

[REDACTED] B1 (b)

B1

Occidental and Bunker Hunt, the first companies summoned by the Libyan Government, fortified with the assurances of company solidarity and support, have refused to yield to the Libyan demands. [REDACTED] B1

[REDACTED] Over the longer run, there remains a danger that the industry common front cannot be maintained in the face of the intense pressure on the independents to settle with Libya, which is their only source of supply. -65

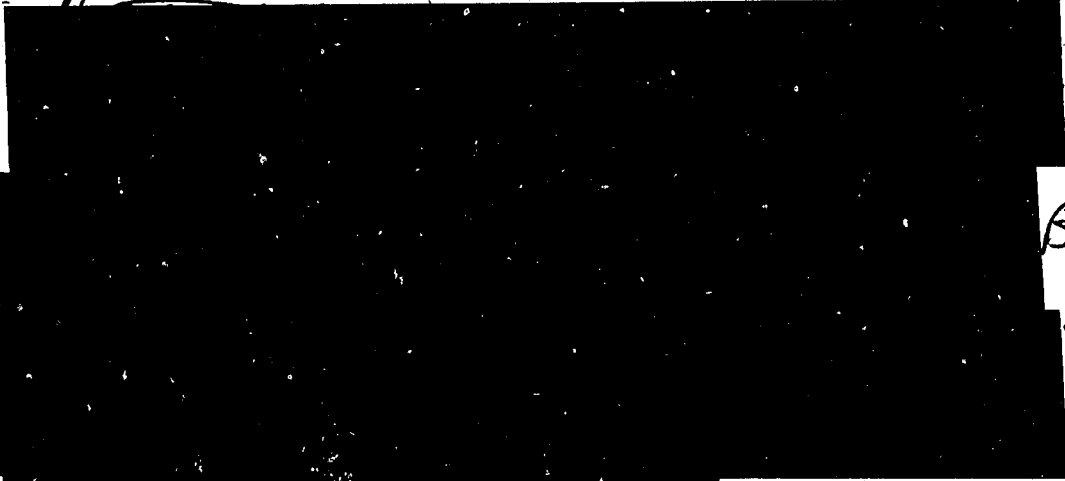
We have suggested and the companies seem prepared to adopt the tactic of separate but concurrent negotiations with the Gulf and with Libya. Whether the OPEC countries will accept this tactic remains uncertain. Nevertheless, the companies now propose, rightly we believe, to go to Tehran on January 28 prepared to negotiate the specific terms of a settlement. They would offer similar terms to Libya at the same time.

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James Akins, a Department oil expert who was on the trip with me, is in London to keep in close touch with the oil companies gathered there. He will remain in London until the companies have completed their negotiating decision-making in mid-week.

In Libya, meanwhile, the latest meeting (January 24) between the government and two of the independents passed without decision but also without incident or threat.

The all-important consideration at present is that the Gulf negotiations should go forward. This seems to be in train, with the company negotiators returning to Tehran on January 28.

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